Investor Brief

A GUIDE FOR ADVISERS, FIDUCIARIES, AND LONG-TERM INVESTORS

Exponential Wealth: Centuries of Stock and Bond Returns

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Exponential Wealth: Centuries of Stock and Bond Returns shows how long-term wealth is created through total return, reinvestment, and time—and why capturing that wealth is difficult. This CFA Institute Research Foundation book traces more than a century of stock and bond returns, showing how inflation, taxes, costs, poor timing, concentration, and investor behavior can reduce what investors actually keep. It also explains why bonds and bills matter: Although they generate far less exponential wealth than equities, they improve portfolio resilience by supporting liquidity, income, and risk control.

Use this brief to

- explain why total return matters more than price appreciation.
- set realistic long-term return expectations.
- discuss inflation, drawdowns, and investor behavior.
- frame forecasts as planning ranges, not promises.
- translate long-run market history into portfolio decisions.

Why This Book Matters Now

This book matters now because investors are making long-term plans after an unusually strong century for US markets. Many assumptions used in retirement planning, spending policy, asset allocation, and capital market forecasts still lean heavily on that experience. This book helps investors use history without assuming it will repeat.

The book shows that $1 invested in US large-cap stocks from 1926 to 2025 grew to $14,751. The same $1 grew to $32,425 in small-cap stocks, $117 in long-term Treasury bonds, and $25 in 30-day Treasury bills. These outcomes are stated in nominal terms because inflation caused an 18-to-1 increase in the price level; as a result, each of the ending wealth values was divided by 18 to arrive at the amount of real wealth produced.

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Key Investor Takeaways

- **Compounding is the engine of long-term wealth.** Small differences in annual returns can create enormous differences over decades.
- **Total return matters more than price return.** Dividends, coupons, and reinvested income are central to long-term wealth creation.
- **Inflation is a quiet but powerful risk.** Investors should focus on real purchasing power, not just nominal account values.
- **Costs and taxes compound against investors.** Minimize avoidable expenses, turnover, and tax drag.
- **Risk is the price of higher expected return.** Stocks have historically delivered higher returns than bonds and bills, but with much larger drawdowns.
- **Diversification is essential.** The US experience was unusually strong; investors should not rely on one country, one asset class, or one return premium.
- **Forecasts are planning tools, not promises.** The book's preferred 2026–2050 US equity forecast is about 8.0% nominal and 5.6% real, but outcomes may vary widely.

Who Should Read This Book?

This book is for investors and fiduciaries who need to turn long-run market history into better decision-making. These decisions include how much to save, how much risk to take, how to diversify, how to think about inflation, and how to stay invested when markets fall.

Individual investors and retirement savers can use it to understand why time, reinvestment, and discipline matter. Advisers can use it to explain total return, inflation, drawdowns, risk premiums, and diversification in plain language. Fiduciaries, family offices, and investment committees can use it to set more realistic expectations, test assumptions, and build portfolios that can withstand a wider range of outcomes.

How Each Section Helps Investors

The book's four sections help investors move from basic understanding to practical planning.

Book Section	Investor Application
Section 1: Foundations	Understand total return, compounding, reinvestment, inflation, costs, taxes, and behavior, and review the highlights of US capital markets over the last century.
Section 2: 100 years of US markets	Learn how the US capital markets have produced exponential wealth and set expectations for equity returns, bond returns, drawdowns, and risk premiums.
Section 3: Global and historical evidence	Avoid overreliance on the unusually strong US experience; diversify globally.
Section 4: Forecasting the future	Use expected return estimates as ranges for planning, not point predictions.

Investor Toolkit

The book's lessons are most useful when they lead to better decisions. The toolkit below maps the book's findings to investor needs to translate long-run evidence into practical investor actions.

Investor Need	What the Book Explains	What Investors Should Do
Build long-term wealth	Exponential wealth can only be realized by long-term investors who reinvest dividends and coupon income back into the markets.	Start early, save consistently, reinvest income, and stay invested.
Understand total returns	Total return includes capital appreciation, dividends, and interest.	Use measures of investment performance that include income and reinvestment return as well as capital gain or loss.
Protect purchasing power	Inflation can severely reduce real wealth.	Measure results in real, after-inflation terms, and seek out investments that are resistant to inflation.
Manage costs and taxes	Fees, trading costs, fund expenses, and taxes work against investors and detract from return in a compounded way.	Use low-cost vehicles, limit turnover, and apply tax-aware strategies.
Handle market declines	Building long-term equity wealth requires taking the risk of periodic severe drawdowns.	Set clear rules for market declines before they occur, including rebalancing, liquidity, spending, and communication.
Diversify portfolios	The US experience was unusually strong, and global outcomes varied widely.	Diversify across asset classes, regions, and sources of return.
Plan	Forecasts are uncertain and should be shown as ranges.	Stress-test plans using conservative assumptions and a range of outcomes.

What Investors Should Do Differently

1. **Think in decades, not days.** The book's most important lesson is that exponential wealth requires time. Short-term volatility is not a side issue; it is part of the bargain investors accept in pursuit of higher long-term returns.
2. **Measure wealth after inflation.** A large nominal portfolio may not represent a large real gain if inflation has eroded purchasing power. Investors should evaluate whether their portfolios are growing in real terms.
3. **Reinvest income when growth is the goal.** Dividends and interest are not incidental. Over long horizons, reinvested income can become a major source of wealth.
4. **Control what can be controlled.** Investors cannot control market returns, inflation, or interest rates. They can control their savings rate, spending rate, amount of portfolio diversification, costs, taxes, turnover, and their own behavior.
5. **Use bonds for the right reasons.** Bonds may not create the same exponential wealth as equities, but they can provide income, liquidity, diversification, and a stabilizing role in a portfolio.
6. **Plan for bad outcomes.** A good plan should survive bear markets, inflation shocks, and lower-than-expected returns. Forecasts should be used as planning tools, not promises.

Investor Questions to Ask

Use the following questions to turn the book's long-run evidence into a practical review of an investor's plan, portfolio, and behavior:

- Are we measuring success in nominal dollars or real purchasing power?
- Does our plan depend too heavily on a repeat in the future of the unusually strong US historical experience?

- Are we using total return, including income and reinvestment, rather than price return alone to report and assess investment performance?
- What costs, taxes, and behavioral mistakes could reduce the return we actually keep?
- How much drawdown can we withstand without abandoning the plan?
- Are forecasts being treated as planning ranges rather than promises?

Bottom Line

It is possible to create exponential wealth, but it does not happen automatically. Investors must save consistently, reinvest income, control costs and taxes, diversify broadly, and stay invested through difficult markets. Although it offers no guarantee, history is a powerful guide of future results. Use it to build resilient plans—not to promise precise outcomes.

Related Content on the CFA Institute Research and Policy Center

- ***Stocks for the Long Run Revisited: Dividends and "The Return Nobody Got"***

  Best for understanding total return, dividend reinvestment, and why investor experience can differ from market returns.

- ***The Performance of the 60/40 Portfolio: A Historical Perspective***

  Useful for applying long-run stock and bond evidence to strategic asset allocation.

- ***The Future of the 60/40 Allocation: Modelling the Performance of the 60/40 Portfolio in Retirement***

  Useful for connecting long-run return evidence to retirement planning and portfolio sustainability.

- ***Stocks for the Long Run? New Evidence, Old Debates***

  Useful for understanding why investors should be cautious about generalizing from modern US market history.

- ***Revisiting the Equity Risk Premium***

  A deeper dive into expected equity returns and the role of the equity risk premium in long-term planning.

- **"Estimating Long-Term Expected Returns"** (*Financial Analysts Journal* article)

  A more technical resource for advisers and committees developing long-term capital market assumptions.

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Find *Exponential Wealth: Centuries of Stock and Bond Returns* and more on the CFA Institute Research and Policy Center website: https://rpc.cfainstitute.org.

Read the full book